Full Year Results Announcement

ASX & media announcement

ASX code: SXE

29 August 2018

Highlights

- **Record revenue of $347.9m, up 74% on prior year**
- **Underlying EBITDA of $19.0m, up 179% on prior year**
- **Underlying NPAT of $10.1m**
- **Fully franked dividend of 3.0 cents per share declared**
- **Strong balance sheet with net cash of $58.1m**
- **Order book over $450m at 30 June 2018 with over $300m already secured for FY19**
- **Reaffirmed growth strategy of achieving further sector and geographic diversity**

Results for the year ended 30 June 2018

The 2018 financial year was the first full year consolidating the results of Heyday, acquired in March 2017, and has seen the Group achieve transformational growth and diversification of revenue and profitability while maintaining the balance sheet strength to allow us to continue to deliver our growth strategy.

Revenue for the year was $347.9m, the highest in the Group's forty year history, which represented a 74% increase on the prior year revenue of $199.9m.

The growth in revenues was generated across a range of markets and geographies highlighting the increased breadth and diversity of the Group. Significant revenue contributors in the year by market sector included:

- Public infrastructure and defence – in the health sector work continued throughout the year on the University of Canberra Hospital in the ACT and commenced on the Westmead Hospital in NSW. In transport we commenced work on the Northlink Central Section project in WA and on the Westconnex M5 road project in NSW and in defence we continue to work on RAAF Tindal in the Northern Territory.

- Commercial – work was predominantly in New South Wales on a range of large construction and fit-out projects including the Duo Central Park tower development in Chippendale, the Insurance Australia Group office fit-out at Darling Park, ATP Building 1 at Eveleigh and Stockland's Greenhills Shopping Centre.

- Resources – in LNG work continues on the Wheatstone LNG project. In mining we performed work under our framework agreements with key iron ore clients in WA and in Queensland activity was at a high level on Rio Tinto's Amrun Bauxite project.

- Telecommunications and data centres – NBN construction activity continued across Australia with an increase in east coast activity in the second half of the year. The business commenced its first construction projects in the mobile sector in both WA and NT. The Airtrunk and Global Switch data centre projects in Sydney were completed during the year.

- Industrial, energy and utilities – SCEE's first solar power projects were completed in New South Wales and the three year Ergon Energy Service Agreement commenced in northern Queensland.

The Group completed its 2018 operations without suffering a Lost Time Injury (LTI). This marked the fourteenth consecutive year LTI free in Australia for the original SCEE business.

Gross margins increased from 11.1% in the first half to 12.8% in the second half giving full year gross margins of 11.9% compared to 12.0% in the prior year.

Overheads in the year were $24.1m compared to underlying overheads of $17.8m[1] in the prior year with the increase from the inclusion of a full year of the Heyday business partly offset by cost saving initiatives implemented in the prior year. Overheads as a percentage of revenues reduced from 8.9% in 2017 to 6.9% in the current year.

Underlying EBITDA for the year, after adjusting for the $1.9m write back of deferred consideration relating to the acquisition of Datatel, was $19.0m representing a 179% increase on the underlying EBITDA of $6.8m[2] in the prior year.

Depreciation expense decreased from $4.3m in the prior year to $3.8m as a result of lower capital expenditure in recent years.

The underlying net profit after tax for the year was $10.1m after adjusting for the write back of Datatel deferred consideration, $2.9m of amortisation of acquired Heyday customer contract intangibles and $0.7m of finance expenses arising from the unwinding of deferred consideration interest discounts. The underlying NPAT in the prior year was $1.4m[3].

The Directors have declared a fully franked dividend for the year ended 30 June 2018 of 3.0 cents per share.

The balance sheet is strong with net cash at 30 June 2018 of $58.1m compared to $40.3m at the start of the year.

During the year $9.25m of consideration was paid to the vendors of Heyday. In November the Group completed a share placement which raised $31.9m after transaction costs to support SCEE's growth strategy by providing balance sheet strength to service the significant pipeline of work and flexibility to capitalise on potential growth opportunities.

Working capital requirements were highest at the end of the year as certain projects reached peak levels of activity. This has resulted in an increase in work in progress from $21.9m in the prior year to $39.8m at 30 June 2018.

Capital expenditure in the year was $1.5m and is expected to remain low for the time being.

Outlook

Order Book

The Group continues to secure work across its core markets with significant awards including over $65m on Westmead Hospital in Sydney, over $55m on the Westconnex M5 road project in NSW and over $50m of contracts recently announced in the commercial sector in ACT and NSW. We also continue to secure regular work under our framework agreements in the resources and telecommunications sectors in a number of states and territories.

The order book at 30 June 18 was over $450m with over $300m of work in hand for the 2019 financial and over $150m already secured for the 2020 financial year.

The business development pipeline remains strong with identified opportunities continuing to be over $2bn including nearly $900m of submitted tenders with clients pending decision.

Markets

In the public infrastructure and defence sector there was approximately $150m work in hand at 30 June 2018 including the Westmead Hosptial and Westconnex M5 projects in NSW and the continuation of work on the Northlink Central Section road project in WA and at RAAF Tindal in the Northern Territory. Investment in road, rail, education, health and aged care and defence remains strong with longevity to the pipeline, particularly in NSW and VIC where government expenditure has been committed to address population growth and congestion.

The commercial sector represents the largest component of the order book at 30 June 2018 with over $200m of work in hand, primarily in NSW where the pipeline is expected to remain strong as a result of office, multi-storey and retail investment and refurbishments of existing facilities to meet high demand. It is anticipated that the current high level of public infrastructure spend will lead to a further wave of commercial developments once completed. Current works include the Duo Central Park tower development, the Insurance Australia Group fit-out, ATP Building 1 and multiple projects at Parramatta Square.

In resources there is ongoing work at Rio Tinto's Amrun project in QLD, early works for BHP's South Flank project and continued commissioning works for Bechtel at Chevron's Wheatstone LNG Project. In iron ore SCEE is positioning for the upcoming large scale replacement tonnage projects and are seeing increasing investment in sustaining capital and have framework agreements in place with Rio Tinto, BHP and Sino Iron. Opportunities in bauxite, gold, lithium and other metals are being actively pursued. Spend in oil and gas is expected to decline in the current year as large scale LNG construction projects complete.

In the telecommunications sector the NBN roll-out is peaking and the technology mix has stabilised while the mobile network providers are upgrading capacity and coverage of their existing 4G networks and preparing for the commercial deployment of 5G which is expected from FY20 onwards. Datatel has multiple framework agreements with Telcos and Tier 1 contractors for both the NBN and wireless works. Growth in data demand is driving data centre construction and having successfully completed large scale projects including Air Trunk and Global Switch the Group is well placed to secure further work in this area.

Energy generation and distribution to meet demand remains a challenge for the east coast of Australia and investment in renewables continues with a focus on solar where we completed our first projects in NSW during the year. SCEE continues to perform work under a three year Ergon Energy Service Agreement in QLD. The industrial sector remains stable providing a flow of opportunities.

Strategy

The Board has reaffirmed its strategy of growth from further sector and geographic diversity. SCEE's expansion will be undertaken through a combination of organic and acquisition activity. Organic growth will primarily be achieved through:

- pursuing upcoming large scale infrastructure projects;
- leveraging the combined Group's customer relationships and skills into new states; and
- rising activity levels in certain sectors, particularly resources.

CEO Comment

Commenting on the results, SCEE's CEO Graeme Dunn said "I am pleased to report a year of record revenues and increased profitability as we continued to progress our growth strategy.

The prior year acquisition of Heyday has significantly strengthened the Group and with a strong balance sheet, healthy order book and large opportunity pipeline across our markets we are well placed to deliver further growth in the year ahead."

Notes

1. Underlying overheads in FY17 excluded $1.7m of restructuring costs and $3.9m relating to Heyday acquisition costs and investments in expansion and diversification initiatives.
2. Underlying EBITDA in FY17 excluded the amounts noted in note 1 above and the $5.4m write back of deferred consideration relating to the acquisition of Datatel.
3. Underlying NPAT in FY17 excluded the amounts noted in notes 1 and 2 above, $2.0m of amortisation of acquired Heyday customer contract intangibles, $0.4m of finance expenses arising from the unwinding of deferred consideration interest discounts and the tax benefit from the items in note 1.

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